

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Delta Area Transit Authority</b>	County <b>Delta</b>
Audit Date <b>9/30/05</b>	Opinion Date <b>11/18/05</b>	Date Accountant Report Submitted to State: <b>1/17/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Anderson, Tackman &amp; Company, PLC</b>			
Street Address <b>901 Ludington Street</b>	City <b>Esanaba</b>	State <b>MI</b>	ZIP <b>49829</b>
Accountant Signature 		Date <b>1/17/05</b>	

DELTA AREA TRANSIT AUTHORITY

FINANCIAL STATEMENTS

Year Ended September 30, 2005

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**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Lindsay J. Behrend, CPA  
Christina A. Smigowski, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the  
Delta Area Transit Authority

We have audited the accompanying statement of financial position of the Delta Area Transit Authority as of September 30, 2005, and the related statement of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Transit's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delta Area Transit Authority as of September 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 18, 2005 on our consideration of the Delta Area Transit Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the Board of Directors of the  
Delta Area Transit Authority

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Delta Area Transit Authority taken as a whole.

The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Anderson, Tackman & Company P.C.*

Certified Public Accountants

November 18, 2005

DELTA AREA TRANSIT AUTHORITY

STATEMENT OF FINANCIAL POSITION

September 30, 2005

ASSETS

CURRENT ASSETS:

Cash and equivalents	\$ 22,891
Accounts receivable	35,672
State grants receivable	12,585
Federal grants receivable	46,500
Prepaid expenses	9,703
Inventory	<u>12,022</u>

TOTAL CURRENT ASSETS 139,373

PROPERTY AND EQUIPMENT, less accumulated  
depreciation of \$1,321,044

992,689

\$1,132,062

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 44,283
Accrued payroll, taxes and fringes	11,071
Due to federal government	5,533
Deferred revenue - Unused T2R tickets	<u>2,638</u>

TOTAL CURRENT LIABILITIES 63,525

NONCURRENT LIABILITIES:

Accrued fringe benefits:	
Vacation leave	19,906
Personal and bereavement time	<u>12,580</u>

TOTAL NONCURRENT LIABILITIES 32,486

TOTAL LIABILITIES 96,011

NET ASSETS:

Unrestricted contributed capital:	
State & Federal	985,261
Local	1,281
Unrestricted	<u>49,509</u>

TOTAL NET ASSETS 1,036,051

\$1,132,062

See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

STATEMENTS OF ACTIVITIES,  
AND CHANGES IN NET ASSETS

For the Years Ended September 30, 2005

Operating revenues		\$ 305,056
Operating expenses		<u>(952,843)</u>
	OPERATING LOSS	(647,787)
Nonoperating revenues		<u>563,783</u>
	DECREASE IN NET ASSETS	(84,004)
Net assets, beginning of year		<u>1,120,055</u>
	NET ASSETS, END OF YEAR	<u><u>\$1,036,051</u></u>

See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

**STATEMENT OF CASH FLOWS**

For the Year Ended September 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from operating activities	\$ 295,854
Cash payments for operating activities	<u>(758,984)</u>

NET CASH USED BY OPERATING ACTIVITIES	<u>(463,130)</u>
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CASH FLOWS FROM NON-CAPITAL FINANCING  
ACTIVITIES:

Operating grants received	<u>395,283</u>
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CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES:

Acquisition of fixed assets	(136,832)
Capital contributed by state, federal & local sources	<u>136,832</u>

NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>
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NET DECREASE IN CASH AND EQUIVALENTS	(67,847)
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CASH AND EQUIVALENTS, beginning of year	<u>90,738</u>
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CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 22,891</u>
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RECONCILIATION OF OPERATING LOSS TO NET  
CASH USED BY OPERATING ACTIVITIES:

Operating loss	\$ (647,787)
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Adjustments to reconcile operating  
loss to net cash used by operating  
activities:

Depreciation	191,313
Changes in assets and liabilities:	
(Increase) decrease in receivables	(7,076)
(Increase) decrease in prepaid expenses	1,212
(Increase) decrease in inventory	(48)
Increase (decrease) in payables	5,775
Increase (decrease) in deferred revenues	(2,126)
Increase (decrease) in accrued payroll & fringes	(10,448)
Increase (decrease) in accrued fringe benefits	<u>6,055</u>

NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (463,130)</u>
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See accompanying notes to financial statements.



DELTA AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Delta Area Transit Authority conform to accounting principles generally accepted in the United States of America as applicable to nonprofit entities. The Delta Area Transit Authority was formed in September of 1989 as a nonprofit corporation to provide public transportation throughout the Delta County area. It is governed by a separately appointed board of directors and is not a component unit of Delta County. Other significant policies are as follows:

(1) Basis of Accounting - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The Transit maintains its accounting records on the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when incurred.

(2) Inventories - Inventory consists of replacement parts and is valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Office supplies and fuel are expensed when purchased.

(3) Fixed Assets and Depreciation - Fixed assets are stated at cost when purchased. Costs relating to maintenance and repairs are charged to expenses, whereas those for renewals and betterment, when significant in amount, are capitalized. Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives. Ranges of useful lives, by asset class, are as follows:

Vehicles	4 - 7 years
Equipment	3 - 10 years
Land Improvements	10 years
Buildings	20 years

(4) Taxable Status - The Transit has received a non-profit exemption ruling from the Internal Revenue Service under Code Section 501(c)(3).

(5) Estimates - The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(6) Advertising - Advertising costs are expensed as incurred. Total advertising expense for the fiscal year was \$18,814. Additionally, \$12,000 of advertising revenue and expense was recorded during the year as a result of barter transactions with local radio stations.

DELTA AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE B - CASH AND EQUIVALENTS

The composition of cash and equivalents as reported on the Balance Sheet are presented below:

Imprest cash	\$ 100
Deposits:	
Checking account deposits	<u>22,791</u>
TOTAL CASH AND EQUIVALENTS	<u>\$ 22,891</u>

State statutes authorize the Transit to deposit and invest in the following:

- a. Bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Banker's acceptance of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
  - i) The purchase of securities on a when-issued or delayed delivery basis.
  - ii) The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.

DELTA AREA TRANSIT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2005

**NOTE B - CASH AND EQUIVALENTS (continued)**

- iii) The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an inter-local agreement under the Urban Cooperation of Act 1967, MCL 124.501 to 124.512.
- i. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- j. Investment pools organized under the Local Government Investment Pool Act, MCL 129.141 to 129.150.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

All deposits are carried at cost, which approximates market value, and are in accordance with statutory authority.

The Risk disclosures for the Transit's cash deposits are as follows:

<u>Deposits</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured	\$ 41,940	\$ 22,791
Uninsured	-	-
Total	<u>\$ 41,940</u>	<u>\$ 22,791</u>

**NOTE C - STATE GRANTS RECEIVABLE**

The following is a summary of the state grants receivable as of September 30, 2005:

Act 51 operating assistance - FY 2004	\$ 1,884
- FY 2005	1,884
Project Zero	<u>8,817</u>
	<u>\$ 12,585</u>

**NOTE D - FEDERAL GRANT RECEIVABLE**

The federal grant receivable consisted of an amount due of \$46,500 for the operating assistance for fiscal year 2005.

DELTA AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE E - PROPERTY AND EQUIPMENT**

Major classes of property and equipment consist of the following:

	Federal & State Funds	Local Funds	Total
Vehicles	\$1,181,544	\$ 19,052	\$1,200,596
Equipment	197,507	28,836	226,343
Land & improvements	35,545	-	35,545
Building	846,929	4,320	851,249
	2,261,525	52,208	2,313,733
Accumulated de- preciation	(1,276,264)	(44,780)	(1,321,044)
TOTAL	<u>\$ 985,261</u>	<u>\$ 7,428</u>	<u>\$ 992,689</u>

Depreciation expense was \$191,313 for the year ended September 30, 2005, of which \$3,101 was on assets purchased with local funds.

**NOTE F - ACCUMULATED UNPAID VACATION, PERSONAL AND BEREAVEMENT TIME**

Vacation leave is earned in varying amounts depending on the number of years of service provided by the employee, along with the average number of hours worked each week. Vacation leave accumulates on the employees hire date anniversary and is not to exceed a total accumulation of 25 days annually. Vacation time may be carried over from year to year, but is not to exceed ten days or eighty hours. Accumulated vacation time is payable for all outstanding days at the employees current rate of pay upon retirement or termination. The amount of accrued vacation time at September 30, 2005 is \$19,906.

Personal and bereavement time accumulates at a rate of four (4) hours per month for a 40 hour employee, three (3) hours per month for a 30 hour employee and two (2) hours per month for a 20 hour employee. The maximum for personal and bereavement leave shall not exceed one hundred and forty (140). Employees will be allowed to convert 25% of their excess personal and bereavement time to their retirement account. The amount of accrued personal and bereavement leave at September 30, 2005 is \$12,580.

**NOTE G - DUE TO FEDERAL GOVERNMENT**

The following is a summary of the amount due to the federal government as of September 30, 2005:

Sec. 5311 - FY02	\$ 2,930
- FY03	<u>2,603</u>
	<u>\$ 5,533</u>

DELTA AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE H - CONTRACT FARES**

The Delta Area Transit Authority has entered into a contract with the Pathways Mental Health Center for the transportation of it's clients. This contract is a four year contract expiring September 30, 2005. Under the current agreement Pathways pays the Transit \$4.30 per client trip for the fiscal year ended September 30, 2005. The total amount of revenue earned under this contract for the year ended September 30, 2005 was \$137,246.

**NOTE I - GRANT CONTINGENCIES**

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. As of September 30, 2005, management is unaware of any such unrecorded liability.

**NOTE J - BUS SUB-LEASES**

During the fiscal year the Transit sub-leased two buses from the State of Michigan. These buses are leased by the State from the lessor and the Transit does not hold title or liability for these buses. As such these financial statements show no asset or depreciation expense for these buses. The Transit is only liable for the operating expenses related to these buses.

**SUPPLEMENTARY INFORMATION**

DELTA AREA TRANSIT AUTHORITY

SCHEDULE OF OPERATING REVENUES

For the Year Ended September 30, 2005

OPERATING REVENUES:

Demand response (farebox)	\$ 113,606
Special contract fares	176,515
Advertising sales	12,000
Maintanance services	1,128
Miscellaneous	<u>1,807</u>

TOTAL OPERATING REVENUES	<u>\$ 305,056</u>
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See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

SCHEDULE OF OPERATING EXPENSES

For the Year Ended September 30, 2005

	<u>Opera- tions</u>	<u>Mainten- ance</u>	<u>General Adminis- tration</u>	<u>Total System</u>
Labor:				
Operators' salaries and wages	\$299,424	\$ 37,439	\$ 47,052	\$383,915
Fringe benefits	49,299	29,537	3,353	82,189
Services:				
Advertising fees	18,104	-	710	18,814
Audit cost	4,800	-	-	4,800
Other services	7,037	4,319	11,033	22,389
Materials and supplies consumed:				
Fuel and lubricants	67,428	-	113	67,541
Tires and tubes	-	3,834	-	3,834
Other materials and supplies	2,064	32,461	2,414	36,939
Utilities	8,086	-	8,085	16,171
Insurance costs	53,808	-	3,593	57,401
Purchased transportation service	59,026	-	-	59,026
Miscellaneous:				
Travel and meetings	200	-	2,304	2,504
Other	-	-	3,495	3,495
Operating leases and rentals	2,512	-	-	2,512
Depreciation	<u>191,313</u>	<u>-</u>	<u>-</u>	<u>191,313</u>
TOTAL OPERATING EXPENSES	<u>\$763,101</u>	<u>\$107,590</u>	<u>\$ 82,152</u>	<u>\$952,843</u>

See accompanying notes to financial statements.



DELTA AREA TRANSIT AUTHORITY

SCHEDULE OF NONOPERATING REVENUES

For the Year Ended September 30, 2005

STATE OF MICHIGAN OPERATING GRANTS:

Formula operating assistance (Act 51)	\$328,084
Project Zero	8,817
RTAP	695

FEDERAL OPERATING GRANTS:

U.S. Department of Transportation Grant	
Section 5311	83,824
FY04 adjustment	1,916

CAPITAL GRANTS	136,832
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OTHER GRANTS:

Project Zero - nonstate	<u>3,615</u>
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TOTAL NONOPERATING REVENUES	<u>\$563,783</u>
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See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

SCHEDULE OF CONTRIBUTED EQUITY

For the Year Ended September 30, 2005

Balance, beginning of year	\$1,036,640
Add: grants received	<u>136,832</u>
	1,173,472
Deduct:	
Depreciation of assets purchased from contributed equity	<u>(188,211)</u>
BALANCE, END OF YEAR	<u>\$ 985,261</u>

See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

SCHEDULE OF CAPITAL CONTRACTS

For the Year Ended September 30, 2005

GRANTOR: Michigan Department of Transportation

<u>Contract Number</u>	<u>Grant Amount</u>	<u>Previously Earned</u>	<u>State and Federal Currently Earned</u>	<u>Local Currently Earned</u>	<u>Amount Remaining</u>
02-0031Z3	\$ 74,252	\$ 60,873	\$ 5,855	\$ -	\$ 7,524
02-0031Z6	55,000	-	52,966	-	2,034
02-0031Z7	88,035	-	78,011	-	10,024
02-0031Z10	35,000	-	-	-	35,000
02-0031Z11	85,000	-	-	-	85,000
02-0031Z14	<u>8,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,000</u>
TOTAL	<u>\$ 345,287</u>	<u>\$ 60,873</u>	<u>\$ 136,832</u>	<u>\$ -</u>	<u>\$ 147,582</u>

See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

**SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS**

For the Year Ended September 30, 2005

	<u>Operating</u>	<u>Project Zero</u>	<u>RTAP</u>	<u>Total</u>
Labor	\$ 376,698	\$ 7,217	\$ -	\$383,915
Fringe benefits	80,644	1,545	-	82,189
Services	45,138	865	-	46,003
Materials and supplies	106,278	2,036	-	108,314
Utilities	15,867	304	-	16,171
Insurance costs	56,322	1,079	-	57,401
Purchased transportation service	59,026	-	-	59,026
Miscellaneous	5,191	113	695	5,999
Operating leases and rentals	2,465	47	-	2,512
Depreciation	<u>191,313</u>	<u>-</u>	<u>-</u>	<u>191,313</u>
	938,942	13,206	695	952,843
Less ineligible expenses	<u>(194,773)</u>	<u>(13,206)</u>	<u>(695)</u>	<u>(208,674)</u>
TOTAL ELIGIBLE EXPENSES	<u>\$744,169</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$744,169</u>

See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS

For the Year Ended September 30, 2005

	<u>Federal Section 5311</u>	<u>State Operating Assistance</u>
EXPENSES:		
Labor	\$ 383,915	\$ 383,915
Fringe benefits	82,189	82,189
Service	46,003	46,003
Materials and supplies	108,314	108,314
Utilities	16,171	16,171
Insurance costs	57,401	57,401
Purchased transportation service	59,026	59,026
Miscellaneous	5,999	5,999
Operating leases and rentals	2,512	2,512
Depreciation	<u>191,313</u>	<u>191,313</u>
TOTAL EXPENSES	<u>952,843</u>	<u>952,843</u>
LESS INELIGIBLE EXPENSES:		
Maintenance services	1,128	1,128
Project Zero	13,206	13,206
Depreciation	189,484	189,484
MPTA Dues	56	56
Audit cost	<u>4,800</u>	<u>-</u>
TOTAL INELIGIBLE EXPENSES	<u>208,674</u>	<u>203,874</u>
NET ELIGIBLE EXPENSES	<u>\$ 744,169</u>	<u>\$ 748,969</u>
SECTION 5311 CONTRACT PERCENTAGE - 12.4%	<u>\$ 92,277</u>	
MAXIMUM SECTION 5311 REIMBURSEMENT	<u>\$ 83,824</u>	
STATE OPERATING ASSISTANCE REIMBURSEMENT 38.437574823%		<u>\$ 287,885</u>
STATE OPERATING ASSISTANCE FY97 FLOOR		<u>\$ 328,084</u>

See accompanying notes to financial statements.

DELTA AREA TRANSIT AUTHORITY

**SCHEDULE OF MILEAGE DATA, VEHICLE HOURS, AND PASSENGERS**

For the Year Ended September 30, 2005

	Public Transportation Mileage	Vehicle Hours	<u>Passengers</u>		
			<u>Regular</u>	<u>Elderly</u>	<u>Disabled</u>
DEMAND RESPONSE:					
First Quarter	72,035	4,365	6,619	2,625	15,389
Second Quarter	76,124	4,351	8,683	2,082	13,671
Third Quarter	72,210	4,919	8,312	1,877	14,085
Fourth Quarter	<u>79,014</u>	<u>5,235</u>	<u>7,328</u>	<u>1,104</u>	<u>14,080</u>
TOTAL OPERATIONS	<u>299,383</u>	<u>18,870</u>	<u>30,942</u>	<u>7,688</u>	<u>57,225</u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

See accompanying notes to financial statements.

**COMPLIANCE SECTION**



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
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Kevin C. Pascoe, CPA  
Lindsay J. Behrend, CPA  
Christina A. Smigowski, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors of the Delta  
Area Transit Authority  
Escanaba, Michigan 49829

We have audited the financial statements of the Delta Area Transit Authority, as of and for the year ended September 30, 2005, and have issued our report thereon dated November 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Transit's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement could adversely affect the Transit's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Report to Management dated November 18, 2005.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Transit, in a separate letter dated November 18, 2005.



Board of Directors of the Delta  
Area Transit Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Transit's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Transit, in a separate letter dated November 18, 2005.

This report is intended for the information of the Transit Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Andersey, Tackman & Company P.L.C.*

Certified Public Accountants

November 18, 2005

DELTA AREA TRANSIT AUTHORITY

**SCHEDULE OF EXPENDITURES OF AWARDS - FEDERAL AND STATE**

For the Year Ended September 30, 2005

<u>Federal Grantor/Program Title</u>	<u>State Contract Number</u>	<u>CFDA Number</u>	<u>Award Amount</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION:</b>			
Passed through MDOT			
Operating Assistance -			
Section 5311 - FY05	02-0031Z13	20.509	\$ 83,824
Capital Assistance	02-0031Z3	20.509	74,252
Capital Assistance	02-0031Z6	20.509	55,000
Capital Assistance	02-003127	20.509	88,035
 <b>MICHIGAN DEPARTMENT OF TRANSPORTATION:</b>			
Operating Assistance -			
Act 51 - FY05	-	-	328,084
- FY04	-	-	-
Project Zero	02-0031Z12	-	11,756
RTAP	-	-	695
 <b>TOTAL OPERATING ASSISTANCE</b>			

<u>Unexpended Balance 09/30/04</u>	<u>Federal Revenue</u>	<u>State Revenue</u>	<u>Other Revenue</u>	<u>Expendi- tures</u>	<u>Unexpended Balance 09/30/05</u>
\$ -	\$ 83,824	\$ -	\$ -	\$ 83,824	\$ -
-	4,684	1,171	-	5,855	-
-	42,373	10,593	-	52,966	-
-	62,409	15,602	-	78,011	-
-	-	328,084	-	328,084	-
-	-	1,916	-	1,916	-
-	-	8,817	3,615	12,432	-
-	-	695	-	695	-
<u>\$ -</u>	<u>\$ 193,290</u>	<u>\$ 366,878</u>	<u>\$ 3,615</u>	<u>\$ 563,783</u>	<u>\$ -</u>

DELTA AREA TRANSIT AUTHORITY

DETAIL OF INELIGIBLE EXPENSES

For the Year Ended September 30, 2005

<u>Ineligible Expense</u>	<u>Ineligible Costs</u>	
	<u>Section</u> <u>5311</u>	<u>Act</u> <u>51</u>
1. <u>Maintenance Services</u> - During the fiscal year the Transit provided maintenance services for an outside agency. Eligible expenses must be reduced for the costs incurred for revenue earned on outside maintenance services provided.	\$ 1,128	\$ 1,128
2. <u>Project Zero</u> - This project is a separately funded program. Consequently these expenses are ineligible for state and federal operating assistance.	13,206	13,206
3. <u>Depreciation</u> - Depreciation accrued by public operators is ineligible according to UMTA C9050, 1A, Page V-4.	189,484	189,484
4. <u>MPTA Dues</u> - A portion of the Michigan Public Transit Association dues are ineligible. The percentage of ineligible expense for the MPTA dues for fiscal year 2005 is 6.9%.	56	56
5. <u>Audit Cost</u> - The cost of the annual audit is an ineligible expense per OMB Circular A-133 if the Transit expended less than \$500,000 in federal funds. The audit cost remains eligible for Act 51 reimbursement.	4,800	-



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Lindsay J. Behrend, CPA  
Christina A. Smigowski, CPA

**REPORT TO MANAGEMENT**

Board of Directors  
Delta Area Transit Authority  
Escanaba, Michigan 49829

We have audited the financial statements of the Delta Area Transit Authority for the year ended September 30, 2005, and have issued our reports thereon dated November 18, 2005. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

**Our Responsibility Under U.S. Generally Accepted Auditing Standards**

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Delta Area Transit Authority. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

**Significant Accounting Policies**

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Delta Area Transit Authority are described in Note A of the financial statements.

### Significant Accounting Policies (continued)

No new accounting policies were adopted and the application of existing policies were not changed during the fiscal year. We noted no transactions entered into by the Delta Area Transit Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the estimates. The most significant estimate would be the useful lives of equipment and fixed assets. These estimates are based on the Michigan Department of Transportation useful life guidelines.

### Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do have a significant effect on the financial reporting process.

The audit adjustments that, in our judgement, indicate matters that could have a significant effect on the Transit's financial reporting process were to reconcile most of the balance sheet accounts to the actual detail. These adjustments were necessary due to a lack of internal balance sheet reconciliation being done throughout the year. All adjustments made have been posted by the Transit. Our recommendations regarding this matter are addressed in the attached memorandum.

### Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Delta Area Transit Authority or a determin-

Board of Directors  
Delta Area Transit Authority

ation of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Transit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of the Delta Area Transit Authority, for the year ended September 30, 2005, we considered the Transit's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 18, 2005, on the financial statements of the Delta Area Transit Authority.

We have already discussed these comments and suggestions with various Transit personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of the board and management of the Transit and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.C.*

Certified Public Accountants

November 18, 2005

# DELTA AREA TRANSIT AUTHORITY

## COMMENTS AND RECOMMENDATIONS

September 30, 2005

### DEPOSIT TICKETS

Presently on the deposit tickets all of the checks received are listed by their individual check number. For easier receivable tracking we recommend that the names of the payor also be listed. This would allow immediate trackability to the individual receivable listings.

### FAREBOX RECEIPTS

During our audit we noted that the daily driver logs are not always complete with respect to fares that should have been collected. Also we noted that the driver logs are not reconciled to the actual farebox collections. We recommend that at least a periodic reconciliation be performed with the actual fares collected to the driver logs. This will serve to enhance internal controls over farebox collections.

### CHECK SIGNING

At present the Transit uses duplicate signature checks. One signature is a board member's, one is the executive director's. At this time the executive director not only signs the checks but also holds the board member's signature stamp, which effectively eliminates the benefits of a dual signature check system. We recommend that someone other than the executive director, preferably a board member, maintain physical control over the board member's signature stamp.

### LABOR AGREEMENT

During our audit of the paid time off balance accrued by the employees we noticed that there were some differences between the accrued hours and the limits on those hours as agreed to in the labor agreement. We recommend that the accrued hour balances be adjusted to match the labor agreement.

### QUARTERLY OPERATING ASSISTANCE REPORTS

We noted during our audit that the second and third quarter reports were inaccurate in the mileage that was reported. We recommend that procedures be modified to allow for the quarterly reports to be as accurate as possible.

### ACCOUNTING SERVICES

Because of limited personnel and because the general ledger reconciliations were not performed during the year we recommend that the board consider retaining an outside commercial accountant to perform general ledger functions as well as bank reconciliation functions. We feel consideration of the matter is warranted due to the limited number of staff available to perform the accounting functions while maintaining an appropriate level of segregation of duties. With the executive director performing many of the accounting functions segregation of duties with respect to physical asset control and asset accounting is limited.



DELTA AREA TRANSIT AUTHORITY

COMMENTS AND RECOMMENDATIONS

September 30, 2005

PAYROLL

1. One individual selected for the payroll testing was paid at the incorrect rate. This resulted in a total underpayment of \$35.77. We recommend that the pay rates and hours paid be reviewed by someone other than the individual preparing payroll to verify the accuracy of the pay run.
2. One individual selected for the payroll testing did not have an original time sheet on file for the pay period selected. We recommend all time sheets be maintained on file to allow for a complete audit trail.

REPORTABLE CONDITIONS:

GENERAL LEDGER RECONCILIATION

We noted during our audit that no reconciliation was being done between the detail records and the general ledger. This reconciliation should be done on a monthly basis for all balance sheet accounts. Without this reconciliation you have eliminated the usefulness of the double-entry accounting system that is in place.